

**DEPARTMENT OF FINANCE**

**BUDGET SPEECH**

**BY**

**HONOURABLE LOUISA MABE**

**DATE: 09 JULY 2009**

Introduction:

Honourable Speaker, as per the legislative requirement of the Republic of South Africa, I am pleased to outline plans of the Department of Finance for the current financial year 2009/10. I am privileged to stand here in this august house to fulfill the requirement that underpins effective service delivery.

Before I continue with my speech, allow me to pay tribute to my predecessor, Honourable Maureen Modiselle, currently the Premier of the North West Province, for setting a high performance standard in the Department of Finance. She is indeed a great visionary leader, a servant of the people who is committed to the welfare of our people. I want to assure this house that I am determined to continue on the solid foundation she built during the past four years.

I must also acknowledge the contribution of former MEC's Martin Kuscus and Darkey Africa. Without deviating from the budget vote, I must indicate that the process we followed with the revival of the Appropriation Bill is the same like other, in other Provinces including the Western Cape. Therefore we are not a lake within a Country.

Honourable Speaker, we as the North West Provincial Government have come a long way in our effort and attempts to extend to our people the benefits accruing from the resources of this great Province.

During the past years, this Department has not shifted from ensuring that departments, municipalities are guided by the Public Finance Management Act and the Municipal Finance Management Act, as well as ensuring that all public entities comply with the norms, standards, policies and procedures. The implementation of both Acts by the Provincial and Local Government has also revealed serious challenges.

Honourable Speaker, in the midst of this optimism however, we now find ourselves in one of the most difficult, uncertain and challenging times in living memory.

Turmoil in the financial markets and steep increases in commodity prices have put enormous pressure on economies throughout the world and South Africa is no exception.

Plans relating to the use of our 2009/10 budget will therefore seek to deal with this most unfavorable set of circumstances. In implementing the budget allocated to us therefore, we will be guided by the following principles: fairness, sustainability affordability and efficiency.

The aim is to restore order and stability in the lives of those who will be affected by the global economic downturn, by putting in place mechanisms that will assist us to increase productivity, competitiveness and to protect those who are most vulnerable in our Province.

I am certain that our departmental budget will continue to advance the interest of our people, so that irrespective of the challenges surrounding service delivery, and the results of the global economic down-turn, they will continue to reap the gains enshrined in the Freedom Charter.

We need to remember that this is an era of greater responsibility where efficiency and effectiveness will be required in spending government financial resources because backlogs are huge and both President Zuma and Premier Modiselle expect us to achieve more from limited resources that we have at our disposal. People of this Province expect more from us to improve their lives.

At this moment let me provide a snapshot of the department's achievements in the previous financial year.

### **Highlights of the previous year**

- In order to improve the skills of our youth and broaden their chances of obtaining work, the Department implemented the following Learnerships: 16 learners in Public

Sector Accounting, 26 in Internal Audit and 15 in Human Resource Management during the year.

- To improve the qualifications of our low level staff, the Department registered 15 staff members on the Adult Based Education Training Programme (ABET).
- The Department obtained an unqualified audit opinion from the Auditor-General for the eighth year in succession.
- Through the Provincial Treasury's policy initiatives of monitoring and control, the infrastructure and conditional grants spending in 2008/09 financial year improved substantially as compared to spending trends of the 2007/08 which stood at 91% and 92% respectively. By the end of the 2008/09 financial year the spending pattern for infrastructure and conditional grants registered 98%.
- A remarkable improvement in terms of rolling over of unspent funds especially on conditional grants was observed. For instance in 2007/08 the unspent funds on conditional grants amounted to R156, 4 million whilst in 2008/09 only an amount of R47 million was requested to be rolled over.
- 99 officials from provincial departments were trained in supply chain management processes.
- 3846 suppliers were duly registered on the supplier data-base. This enabled previously disadvantaged suppliers, women, disabled and the youth to have access to the government's procurement system.
- Our transversal contract model enabled 1 manufacturer to have a presence in the North West. This enabled 3 small manufacturers to emerge in the Province. About 16 SMMEs have been linked to the supply chain of major national manufacturers of cleaning chemicals and hospital utility, as distributors.
- To empower previously disadvantaged SMMEs on tendering processes, 58 outreach visits, 3 radio talk shows, 30 briefing sessions, 2650 help desk consultations were conducted.
- A partnership has been forged with the DTI (Department of Trade and Industry) to assist our SMMEs to access grants for business development. So far 11 SMME's have been successful in accessing finance although this number is small.
- Audit Outcomes for 2007/2008 for Provincial Departments showed an improvement by reducing the unfavorable Audit reports from 8 to six 6.
- During 2007/08 out of 11 Public Entities 4 achieved unqualified Audit opinion.
- A Provincial Risk Management Forum was established to facilitate the implementation of Risk management in the provincial departments. During 2008/09 financial year 7 Provincial Departments successfully completed risk assessments.
- Financial Management Training (Phase 2) – which focused on training 1000 non-core financial managers, from various departments on levels 9 – 12 was completed in June 2009.
- An Asset Management Framework and Policy and Procedure Manual was developed, approved and is being implemented.

- Quarterly reports for Municipalities were tabled and Gazetted in line with the requirements of the MFMA. Systems have been implemented to evaluate municipal budget performance.
- It is important to highlight the fact that the Department has made remarkable progress in addressing the MFMA reporting backlogs that were outstanding during the last three years. What is left is to improve the quality of the information in these reports.
- Two successful disaster recovery tests on the mainframe were conducted during the year giving an indication that the Province is fully capable of responding to, and recovering its mission critical systems within 24 hours.
- The entire GroupWise electronic mail infrastructure was successfully upgraded to cater for future user-demands.

#### **Challenges confronting the department:**

- The Department is experiencing challenges with regards to retention of skilled staff and high staff turnover especially, in Internal Audit, due to the pending decision on the structure of the Internal Audit.
- Capacity challenges are also experienced by the Department in most of the critical service delivery units due the inappropriate structure.
- The Provincial Revenue Enhancement Strategy could not be completed due lack of capacity.
- Departments are still experiencing challenges in implementing asset management policies due to lack of capacity.
- Upgrading of the current data infrastructure with newer broadband technology could not be to completed due insufficient relevant capacity.
- Even though we have recorded progress in the infrastructure spending I must hasten to indicate that we have to improve oversight on infrastructure and conditional spending to improve the effectiveness of impact on the service delivery.

#### **Strategic focus – 2009/10 financial year**

The department's budget is in consistence with the strategic Plan we submitted to this august house in 2005/06 financial year and annual performance plan submitted in 2009

Therefore the department will focus on the following key strategic issues for the 2009/10 financial year:

### **Corporate Services**

In the coming year, we will develop strategies to enhance cohesion and shared corporate culture, implement a new format of Performance Management and Development System (PMDS), to comply and improve on service delivery.

Honourable Speaker, the department will review its current organizational structure to align it to the requirements of the National Treasury, Public Finance Management Act and the Municipal Finance Management Act.

We will also beef up capacity in critical areas in the department in line with the new organizational structure. In the main this will empower the Provincial Treasury to enhance the level of support to departments, public entities and municipalities.

Honorable Members, fraud and corruption is rife in both the private and public sectors and it denies our people the right to receive government services.

Provincial Treasury will continue with its Fraud and Corruption awareness campaign to empower the community to report fraud and corruption by officials in departments, public entities and municipalities.

The department will continue to educate the public to develop a culture of saving on their income and to mitigate the effects of economic crisis in their lives.

### **Sustainable Resource Management**

Provincial Treasury will establish the Private Public Partnership (PPP) unit to assist departments to speed - up access to services through investment in public infrastructure.

The development of the Revenue Enhancement Strategy will be completed during the second quarter of the 2009/10 financial year. Implementation is expected to resume during the third quarter, the strategy will improve the level of revenue collection in departments and municipalities.

Honourable Speaker, to ensure that resources we allocate to departments are done in terms of core responsibilities; we will conduct an assessment of the efficiency and effective utilization of these resources.

Honourable Members South Africa like all the rest of the world has also been inflicted by the global economic downturn and is currently in recession.

The national revenue targets for the 2009/10 may not be realized due the slowdown in economic activities.

We will also continue to refine the implementation of Infrastructure Development Improvement Programme (IDIP) in conjunction with National Treasury in order to improve the management of infrastructure projects and conditional grants.

It is important that capacity is built in infrastructure departments as this support programme is temporary and will expire next year March 2010.

Despite these challenges, the department will develop strategies to assist departments to respond to the current global economic downturn.

### **Assets and Liabilities**

Although, the supply chain management powers were devolved to departments in 2005, however there are still capacity and fraud and corruption challenges out there.

In 2009, we will develop and implement the provincial procurement policy which will assist in addressing these issues and to empower the relevant stakeholders in terms of the relevant legislations.

### **Financial Governance**

We will strengthen our relationship with the local institutions to develop programmes for building financial management capacity in provincial departments, public entities and municipalities;

The department will fast track the implementation of asset and risk management strategy with other specific interventions to achieve better financial management and to reduce number of qualifications in Provincial Departments.

Let me hastily announce that this year we will implement the Audit Committee structure, which is aligned to the government cluster system. The clustered structure will afford the Audit Committee the opportunity to interface with Heads of Department.

New Audit Committee Members will be appointed shortly to implement the new structure. The number of the external Audit Committee Members will increase from 5 to 11.

This initiative aims to improve governance, reduce fraud and corruption and increase the number of unqualified audit opinions.

The Provincial internal Audit will continue to build on the good foundation laid by expanding the focus of audit coverage, especially in risk areas, performance and information Technology auditing.

Honourable Speaker, last year the department could not finalize the process of updating and reconciling the Tribal accounts with Magosi's books, due to limited resources.

But, despite the challenges, I am optimistic that this year we will fast-track the reconciliation of these accounts to allow for the distribution of the interest earned. This will ultimately lead to the process of finding a mechanism to utilize the Tribal funds to the benefit of the Tribal community.

### **Municipal Finance Management**

Honourable Speaker, in the coming year we will concentrate on the strengthening of the internal capacity of the Municipal Finance Management Unit to ensure that it is in a better position to assist municipalities in the roll out of the Municipal Finance Management Act.

The Head of the Unit and additional managers have already been appointed and are attending to the challenges in municipalities.

The department will within weeks from now implement the strategy to address the root causes of municipal performance failures and coordinate tailor made capacity building interventions.

#### **The programme will also focus on providing:**

- ❑ Intensive hands on support to municipalities in the compilation of their 2009/10 operating and capital budgets, to ensure effective service delivery and sound financial management,
- ❑ Dedicated support with regards to the implementation of the Generally Recognized Accounting Practice (GRAP) and Generally Accepted Municipal Accounting Practice (GAMAP),
- ❑ Dedicated training and capacity building programmes for municipal officials and councilors, focusing on the job training and skills development respectively.

These interventions Honourable Speaker will assist municipalities to maintain effective financial management systems to reduce the number of qualified audit reports.

Honourable Members, this department will forge collaboration with the Department of Local Government and Traditional Affairs to fast-track support to municipalities. The two Departments will in a short space of time sign a memorandum of understanding to improve coordination.

## Information Technology

The North West Provincial Government is the only province that operates outside the national financial systems. The province will migrate from the Walker system to the Basic Accounting System (BAS) with effect from 1 April 2010.

The department will coordinate the transition to ensure that the process runs smooth, without affecting service delivery in the province.

The demand for faster, more secured Information Communication Technology (ICT) infrastructure in the province is one of our major commitments to establish the basis from which we will build our information society.

Our commitment for the 2009/10 financial year is to progressively replace the legacy infrastructure with faster broadband internet infrastructure to improve the level of communication in departments.

In the coming year, this Programme will ensure that ICT investments in the province are in alignment with the Provincial Master Systems Plan.

## Closing Remarks

Honourable speaker I want to give some time to the situation in the municipalities. Most of our municipalities have serious challenges of managing their finances. Some of them have received either qualified or disclaimer reports for almost five years. Some do not have money to pay salaries to the employees at the end of the month. Some use infrastructure grants to pay salaries and survive on huge overdraft facilities. This state of affairs poses huge challenges to the provincial treasury to bail them out. It must be remembered that the province does not generate enough funds and relies more on the equitable shares. The unit on municipal finance in my department is not well **capacitated to deal with all these challenges**. For the past few weeks the Provincial Treasury has been visiting municipalities as the first step towards a hands-on approach that will lead to clean audit outcomes in the future.

The major challenges are financial management and channeling funds towards IDP priorities. This has led to several community unrests based on slow pace of service delivery.

We are going to capacitate this section as a priority during this financial year. President Zuma has given marching orders that service delivery must be speeded up and bottle necks must be unbundled to add more value to the utilization of funds that all spheres of government have at their disposal. The department together with the Department of Local Government and Traditional Affairs will finalise the memorandum of understanding on how we will work together to assist municipalities.

Therefore we will provide regular quarterly reports on spending for both provincial and local government to help the Legislature to conduct its oversight function with ease. It is

also incumbent upon members of this house to utilize those reports to hold government accountable.

The migration from Walker System to BAS will add more value to the provision of timely reports to both the Legislature and National government.

As chairperson of Joint Budget Committee in the National Parliament, I recommended to the former Minister of Finance, Mr. Trevor Manuel to ensure that North West government migrates from the walker system to BAS. This was to ensure that National Parliament would get the spending report of the province at the same time with the ones from other provinces. Little did I know that at this time I will be expected to deliver on what I asked the former Minister Manuel to do. Nevertheless we will deliver on this mandate.

The portfolio committee raised a concern that in some departments supply chain is managed by clerks who do not have in depth understanding of the subject. It is incumbent upon us as government to train and employ people with relevant skills and qualifications to perform that function. We are going to assess and review the training that was given to department to check whether they add more value.

On the issue of the Forensic Unit, Premier Modiselle in her response to the SOPA debate indicated that her office will capacitate the unit then transfer it to Provincial Treasury. The unit is still located in the Premier's Office and not the department.

The importance of Internal Audit in the departments and municipalities cannot be understated. Although there was a high turn-over in that section we will develop a plan on how we can absorb Internal Audit interns who have acquired experience in the department to reduce the workload in the section. We will also ensure that we develop a retention strategy for staff in the department. I have applied my mind to the study that was conducted in Internal Audit and IT Unit and will report to the Legislature on how we will implement the recommendations.

There is a high vacancy rate in the department including at management level. Which compromises the capacity of the department to fulfill its mandate? I have already interacted with national treasury to assist us in how to structure the department to improve the way we do our business. We have to fill these vacancies because they are funded.

The portfolio Committee recommended that we revise the budget to increase the allocation to IT Section. There are challenges in that section which cannot be resourced by increasing the allocation. I earlier indicated that I have interacted with the report of why the section does not deliver to its capacity. The recommendations of that report will assist to make the efficient before we increase its funding towards the fulfillment of its Provincial mandate

Honorable Chairperson the **Occupational Specific dispensation** is a challenge that we have to confront as a government. It can't be pushed aside but has to be completed. Departments overspend on **OSD** because of incorrect statistics at the disposal of the

department. In order to assist, we will work with departments to correct statistics for costing purpose.

Honourable Speaker, allow me to table the budget of the department for the 2009/12 financial years per programme:

### **Budget for 2009/10 financial year**

The total budget for the Department for the 2009/10 financial year is R335.966 million. The budget allocations for the two outer years of the MTEF period are R387.166 million and R436.033 million respectively.

The allocation of the budget to the six main programmes is as follows:

#### **PROGRAMME 1 - ADMINISTRATION**

The objective of this Programme is to provide administrative leadership, human resource, financial management and communication support services to the Department.

The Programme is allocated R61, 808 million in the 2009/10 financial year and R69, 357 million and R75.277 million respectively for the two outer years of the MTEF period.

#### **PROGRAMME 2 - SUSTAINABLE RESOURCE MANAGEMENT**

The objective of this Programme is to develop policy guidelines on the management of the Provincial Budget and to ensure that the PFMA is effectively implemented in all Provincial Departments.

It also ensures that resources are fairly allocated to the respective departments. It also performs oversight activities by monitoring and reporting on the spending of the provincial budget, as well as ensuring that there is effective and efficient control over provincial revenue and other resources.

The Programme is allocated R65.249 million for the 2009/10 financial year, R101. 954 million and R138.808 million respectively for the two outer years of the MTEF period.

#### **PROGRAMME 3 - ASSET AND LIABILITIES MANAGEMENT**

The objective of this Programme is to manage provincial assets and liabilities and to provide policy guidelines on supply chain management.

The budget allocation for this Programme for the 2009/10 financial year is R16.138 million and R16.230 million and R16.419 million respectively for the two outer years of the MTEF period.

#### **PROGRAMME 4 - FINANCIAL GOVERNANCE**

The Financial Governance Programme comprises of two main divisions that of the Provincial Accountant General's Office and the Provincial Internal-Audit.

##### **Provincial Accountant General**

The objective of the Accountant-General's Office is to provide quality accounting services for the Province and to implement sound financial management practices in line with Generally Accepted Accounting Practice (GAAP) and Generally Recognized Accounting Practice (GRAP).

##### **Provincial Internal-Audit Function.**

The objective of Provincial Internal Audit is to provide transversal internal audit services to ten out of the eleven provincial departments in the Province.

The budget allocation for this Programme for the 2009/10 financial year is R94.605 million and R99.081 million and R103.250 million respectively for the two outer years of the MTEF period.

#### **PROGRAMME 5 - MUNICIPAL FINANCIAL MANAGEMENT**

The primary objective of this programme is to assist municipalities in modernizing their budgeting and financial management practices in order to maximize their capacity to deliver services to all residents, customers, users and potential investors in the Province.

It also aims at putting in place a sound financial governance framework in all the municipalities.

The budget allocation for the 2009/10 financial year is R17.912 million and R17.455 million and R17.872 million in the two outer years of the MTEF period respectively.

## **PROGRAMME 6 - INFORMATION TECHNOLOGY**

The objective of this Programme is to offer Information Communication Technology (ICT) direction to the North West Provincial Administration by providing information technology solutions.

These include development and maintenance of enterprise applications, management and support of network services and architecture, database and data storage, information and communication technology (ICT) security, mainframe and server systems, and provision of E-government services.

The budget allocation for this division for carrying out its objectives is R80.254 million for the 2009/10 financial year. The corresponding allocations for the two outer years of the MTEF period are R83.089 million and R84.407 million respectively.

### **Conclusion**

Honourable Speaker,

We are fully aware of the current financial crisis that threatens the level of service delivery to our people; however with the limited funds allocated we will do our best to serve the people.

I therefore, wish to sincerely thank the following

- The Premier, Maureen Modiselle for her continued support and adept leadership.
- Colleagues in the Executive Council for their support
- Honourable Members for this august house for their vigilance
- Honourable Members of the Port Folio Committee
- Head of Department of Finance and his team for their dedication
  
- My family for standing by me at all times

Honourable Speaker, I am highly convinced that we will do our part to support other departments to achieve their mandates.

In conclusion Honourable Speaker allow me to table before this august house the 2009/10 budget allocated to the Department of Finance.

I thank you.

Ke a leboga

Baie Dankie